

# IOWA Department of REVENUE

## Iowa Leading Indicators Index June 2013 Report

Tax Research and Program Analysis Section

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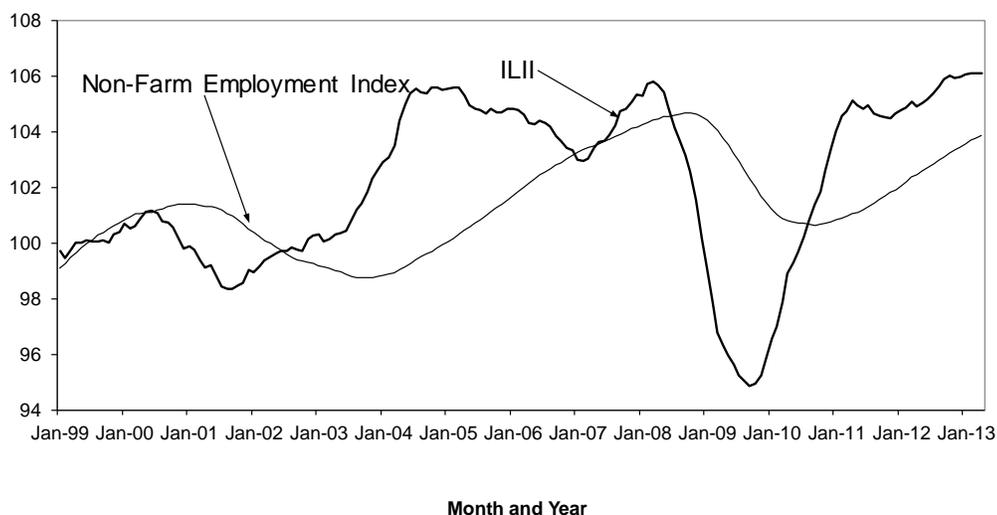
The Iowa Leading Indicators Index (ILII) increased to 106.5 (100=1999) in June 2013. The Iowa non-farm employment coincident index recorded a 0.13 percent rise in June, which extends the streak of employment gains to thirty-three consecutive months.

The ILII's value rose in June after holding steady from January through April at 106.1 and rising to 106.4 in May. During the six-month span through June, the ILII increased 0.5 percent (an annualized rate of 1.0 percent). The six-month diffusion index was 75.0 with six of the eight components (average weekly manufacturing hours, residential building permits, average weekly unemployment claims, the national yield spread, diesel fuel consumption, and the Iowa stock market index) experiencing an increase of more than 0.05 percent over the last half a year.

In June, six of eight Iowa Leading Indicators Index components contributed positively. The positive contributors were the national yield spread, diesel fuel consumption, the new orders index, average weekly unemployment claims (inverted), average weekly manufacturing hours, and the Iowa stock market index. The agricultural futures profits index and residential building permits both contributed to the index negatively.

**Figure 1. Iowa Leading Indicators Index and Iowa Non-Farm Employment Coincident Index: January 1999-June 2013**

Index (1999=100)



**Table 1. Iowa Leading Indicators Index: Six Month Overview**

Monthly Values	2013					
	January	February	March	April	May	June
ILII	106.1	106.1	106.1	106.1	106.4	106.5
Percentage Change <sup>a</sup>	0.1%	0.0%	0.0%	0.0%	0.3%	0.1%
Diffusion Index <sup>b</sup>	62.5	56.3	56.3	62.5	62.5	68.8
Six-Month Values	July to January	August to February	Sept to March	Oct to April	Nov to May	Dec to June
ILII						
Percentage Change	0.6%	0.5%	0.2%	0.1%	0.4%	0.5%
Annualized Percentage Change	1.3%	0.9%	0.4%	0.2%	0.8%	1.0%
Diffusion Index	75.0	62.5	62.5	56.3	62.5	75.0

Source: Tax Research and Program Analysis Section, Iowa Department of Revenue, produced July 31, 2013.

a. Percentage changes in the ILII do not always equal changes in the level of the ILII due to rounding.

b. A diffusion index measures the proportion of components that are rising based on the actual changes (not the standardized contributions to the ILII). Components experiencing increases greater than 0.05 percent are assigned a value of 1.0, components that experience changes less than an absolute value of 0.05 percent are assigned a value of 0.5, and components experiencing decreases greater than 0.05 percent are assigned a value of 0.0.

**Table 2. Iowa Leading Indicators Index Components: Six Month Overview**

Component Series Monthly Values <sup>a</sup>	2013					
	January	February	March	April	May	June
AFPI <sup>b</sup>						
Corn Profits (cents per bushel)	319.3	319.3	320.0	317.0	317.5	329.6
Soybean Profits (cents per bushel)	588.8	595.2	593.6	580.3	574.7	607.4
Hog Profits (cents per pound)	17.1	16.2	15.2	14.6	14.6	14.5
Cattle Profits (cents per pound)	-12.3	-13.1	-13.9	-14.9	-15.9	-16.6
Iowa Stock Market Index (10=1984-86)	78.66	79.08	81.16	81.88	85.78	85.98
Yield Spread (10-year less 3-month)	1.84	1.88	1.87	1.70	1.89	2.25
Residential Building Permits	826	832	824	840	837	830
Average Weekly Unemployment Claims <sup>d</sup>	3,335	3,315	3,311	3,293	3,297	3,284
Average Weekly Manufacturing Hours	40.69	40.63	40.66	40.65	40.69	40.71
New Orders Index (percent)	65.5	65.0	64.5	65.3	65.7	66.1
Diesel Fuel Consumption (mil gallons)	55.05	55.29	55.37	55.34	55.57	55.68

Source: Tax Research and Program Analysis Section, Iowa Department of Revenue, produced July 31, 2013.

a. For all component series except for the yield spread and the Iowa stock market index, the values represent 12-month backward moving averages.

b. The agricultural futures profits index is computed as the sum of the standardized symmetric percent changes in the four series, each weighted by the commodity's annual share of Iowa cash farm income (updated August 28, 2012).

c. Arrows indicate the direction of the series' contribution to the ILII for the latest month.

d. Changes in average weekly initial unemployment insurance claims are inverted when added to the ILII, thus a negative change in the series contributes positively to the index.

## ILII Components

- **Yield spread:** Difference between the yield on 10-year Treasury bonds and 3-month Treasury notes. During June, the yield spread increased to 2.25 percent as the long-term rate rose 37 basis points and the short-term rate rose 1 basis point. For the month, the yield spread contributed 0.12 to the ILII.
- **Diesel fuel consumption:** Number of taxable gallons of diesel fuel sold in Iowa. Changes are calculated based on a 12-month moving average. Diesel fuel consumption increased 2.3 percent between June 2012 and 2013, causing the 12-month moving average to rise to 55.68 million gallons from 55.57 in May, and contributing 0.04 to the ILII value.
- **New orders index:** Diffusion index measuring the share of purchasing managers in Iowa reporting increases in orders received for manufacturing output. Changes are calculated based on a 12-month moving average. In June, the monthly value of the index rose to 77.7 from 75.3 in May and from 73.7 a year ago. The 12-month moving average of the new orders index rose to 66.1, contributing 0.02 to the ILII.
- **Average weekly unemployment claims:** Weekly average of initial claims for unemployment insurance in Iowa. Changes are calculated based on a 12-month moving average and are inverted when added to the ILII. This component contributed 0.01 to the ILII value. The 12-month moving average of claims fell to 3,284 with unemployment claims for the month 4.9 percent below June 2012 claims, but 9.6 percent above average historical claims for June (1987-2008).
- **Average weekly manufacturing hours:** Weekly average of hours worked in the manufacturing sector in Iowa. Changes are calculated based on a 12-month moving average. For June 2013, this component contributed 0.01 to the ILII value after increasing to 40.71 from 40.69 in June. June 2013 hours were 41.7 compared to 41.5 hours in June 2012 and an historical average of 41.8 (1996-2008).
- **Iowa stock market index:** Capitalization-weighted index of 34 Iowa-based or Iowa-concentrated publicly-traded companies. During June 2013, 19 of the 34 companies gained value, including 9 of the 11 financial-sector companies. The stock market index rose to 85.98, contributing 0.00 to the ILII value.
- **Residential building permits:** Number of total permits issued in Iowa for the construction of residential housing units. Changes are calculated based on a 12-month moving average. For June, this component contributed -0.03 to the ILII with the 12-month moving average decreasing to 830. June 2013 permits were 9.1 percent below the number of permits issued in June 2012, and 40.9 percent below the historical average for June (1998-2008).
- **Agricultural futures profits index:** Composite measure of corn, soybean, hog, and cattle expected profits, measured as the futures price less estimated breakeven costs, weighted by the respective share of Iowa annual cash receipts. Changes are calculated based on a 12-month moving average. During June, this component contributed -0.04 to the ILII value. Expected profits rose for corn and soybeans despite corn prices being down 1.2 percent and soybean prices being down 1.3 percent compared to last year. Beginning in June, expected profits reflect the crop in the fields with a new estimate of breakeven costs. Expected profits declined moderately for hogs and cattle even though hog prices rose 6.0 percent and cattle prices rose 2.6 percent over last year.

**Table 3. ILII Components and Standardization Factors for FY 2013**

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Iowa Leading Indicator Index Components	Standardization Factor
Agricultural Futures Profits Index	0.049
Iowa Stock Market Index	0.018
Yield Spread	0.328
Building Permits	0.036
Average Weekly Unemployment Claims	0.033
Average Weekly Manufacturing Hours	0.284
New Orders Index	0.063
Diesel Fuel Consumption	0.188

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Source: Tax Research and Program Analysis Section, Iowa Department of Revenue, produced August 28, 2012  
The standardization factors are the inverse of the standard deviation of the month-to-month changes in each component over the January 1999 to June 2012 period. These factors equalize the volatility of the contribution from each component and are normalized to one. The month-to-month changes are based on 12-month backward moving averages for all components except the yield spread and the Iowa stock market index. The yield spread and new orders index changes are simple arithmetic changes; month-to-month changes for the rest of the components are computed as symmetric percentage changes. The factors are updated annually during August.

### Comments

The Iowa Leading Indicators Index (ILII) is designed to forecast the future direction of economic activity in the state of Iowa. The techniques used to build the ILII follow those used by The Conference Board to construct the national Leading Economics Index (LEI) prior to the 2001 revisions. A one-month movement in such an index does not produce a clear signal, rather it is necessary to consider the direction of the index over several consecutive months. A contraction signal in the ILII is considered reliable when two conditions are met: 1. The index declines by at least two percent over a six month period (using an annualized rate); and, 2. A majority of the individual components decline over those six months (the six-month diffusion index less than 50.0).

The Iowa non-farm employment coincident index measures the change in non-seasonally adjusted, total non-farm employment in the state of Iowa. Changes are based on a 12-month moving average of employment and are computed as symmetric percentage changes. The index is a representation of overall economic activity in Iowa.

The employment index and the ILII are constructed to have a value of 100 in the year 1999.

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